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MarketView

Big Box Slovakia

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Q2 2010

Quick Economy Stats

	Change from Q1 2010	Change from Q2 2009
Inflation	↑	↓
Unemployment	↓	↑

- Latest figure for GDP published by Slovak Statistic Office reached 2.8% y-o-y (in current prices). This was the first positive growth after four consecutive quarters with GDP contraction.
- Over the first half of 2010 the average inflation rate increased by 0.8%, compared with the same period last year.

Quick Stats Big Box

Change from Q1 2010

	Greater BA Area	Pan Slovakia
Leasing Activity	↑	↑
Vacancy	↓	↓
Rents	→	→
New Supply	→	→

Hot Topics

- In terms of supply, no new projects were delivered to the market in Q2 2010.
- Total leasing activity in the second quarter of 2010 increased considerably by 97.5% comparing with Q1 2010. It reached ca. 71,000 sq m, which is 10% y-o-y.
- Less vacant space brought the vacancy rate down to 5.5%

OVERVIEW OF WAREHOUSING AND LOGISTICS IN SLOVAKIA

Leasing activity reached its highest level since Q3 2008, although we have still not recorded any new supply to the modern warehousing space in the second quarter of 2010. The amount of vacant space has lowered decreasing the overall vacancy rate in Slovakia to 5.5%. This is a decrease of 30 bps compared to the previous quarter.

There are four projects currently under construction, totaling 18,500 sq m. Out of this two schemes are built to suit projects and represent 76% of total area under construction. This reflects continuing financing concerns and a general hesitancy in terms of logistics and warehousing development currently.

Total Leasing Activity

Total leasing activity in Q2 2010 exceeded all expectations and reached ca. 71,000 sq m, although 44% is represented by lease renewals. Such an increase can be hardly compared with the previous quarter with one lease renewal in the amount of 1,800 sq m. However, comparing to the same period last year, TLA increased only slightly, by 10%. Out of this, net absorption reached approximately 31,000 sq m.
In terms of the market share, ProLogis signed 75% of the area this quarter and clearly dominated the market.

Space Under Construction

In the second quarter of 2010, space under construction increased by 36% q-o-q and there are currently four schemes under construction with a total area of 18,500 sq m. 85% of this area is being constructed in Pan-Regional Slovakia and one smaller speculative project (2,800 sq m) in the Greater Bratislava Area. All projects are planned to be delivered to the market by the end of this year.

New Supply

Similarly as in previous quarter, no new logistic space was completed in Slovakia in Q2 2010. However, there are currently few projects under construction, some of them with anticipated completion dates before the end of 2010.

Q2 2010 Indicators

	Total	Greater Bratislava Area	Pan-Regional Slovakia
Stock (sq m)	1,020,600	880,800	139,800
Space under construction (sq m)	15,700	2,800	18,500
Total Leasing Activity (sq m)	71,000	54,000	17,000
Vacancy	5.5%	4.6%	11.0%
New completions (sq m)	0	0	0
Net effective rent (EUR/sq m/month)	3.00-4.50	3.00-4.50	3.80-4.50

Source: CB Richard Ellis

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Stock

Total modern developer led warehouse space in Slovakia reached 1,020,600 sq m at the end of Q1 2010, reflecting the addition of a warehouse in Eastern Slovakia towards the end of 2009 developed by HB Reavis . Approximately 86% of this is located in the Greater Bratislava Area.

Vacancy & Rents

Increased leasing activity combined with no new supply led to a decreased vacancy rate which reached 5.53% (a decrease of 3.04% q-o-q).
Average headline rents across all of Slovakia remained relatively stable and currently stand between ca. 3.00 – 4.25 €/sq m/month, although there is some evidence that tenants are signing shorter lease terms.

SUBMARKET 1 – GREATER BRATISLAVA AREA

The amount of modern developer-led warehouse stock in Bratislava has not changed since Q3 2009 and amounted to 880,800 sq m, most of which is located in schemes along the D1 and D2 motorways.
There remains currently only one scheme under construction of 2,800 sq m, representing a significant decrease of ca. 92% compared with the same period last year.

Construction activity is very weak at the moment compared to the same period last year. There are currently a number of projects which have been postponed, but which could be constructed if a tenant(s) signed the right pre-lease(s).

In the second quarter of 2010, we recorded a significant increase in demand in the Greater Bratislava Area. Total leasing activity reached ca. 54,000 sq m reflecting a multiple increase compared with one signed transaction (1,800 sq m) previous quarter. This was a 14% decrease in TLA y-o-y.
Net absorption amounted to ca. 23,000 sq m, since 58% of total leasing activity was created by lease renewals.

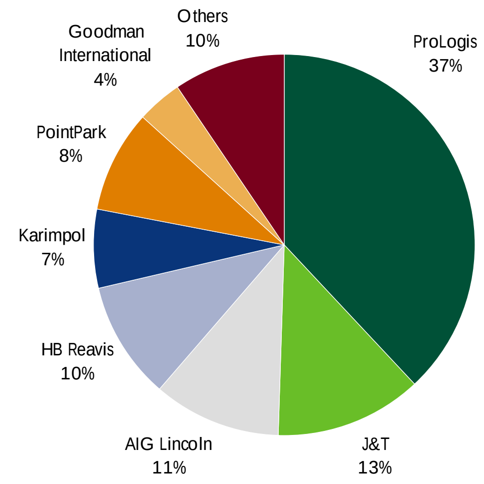
With no new projects being completed in the second quarter and increased demand, the vacancy rate dropped to 4.64%, decrease by 262 bps q-o-q. This is the lowest level of vacancy rate we have recorded since Q3 2008.

Headline industrial rents in the Greater Bratislava Area remained relatively stable and now range from 3.50 – 4.50€/sq m/month (depending on location, lease length and competition in the area).

SUBMARKET 2 – PAN-REGIONAL SLOVAKIA

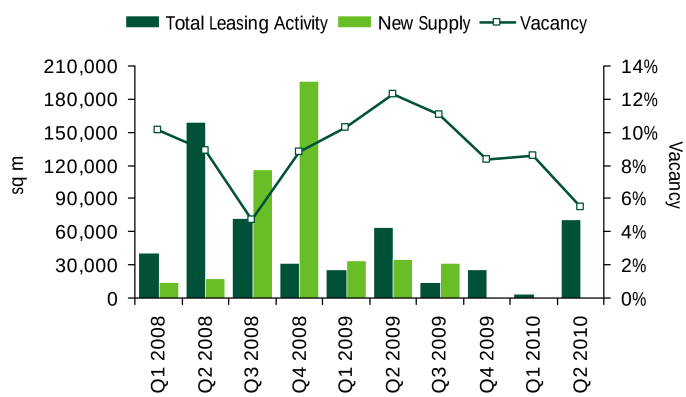
By the end of Q2 2010, the amount of modern developer-led warehouse stock outside of the Greater Bratislava Area reached approximately 140,000 sq m. Similar as in previous three quarter, there were no new completions in the Pan-Regional Slovakia Area in Q2 2010.

Developer Market Share in Slovakia by Stock – Q2 2010



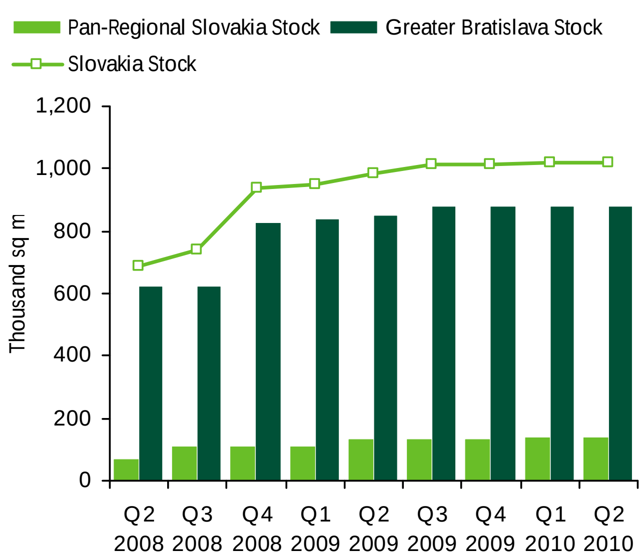
Source: CB Richard Ellis

Industrial Total Leasing Activity, Supply and Vacancy



Source: CB Richard Ellis

Industrial Market Development in Slovakia



Source: CB Richard Ellis

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We have recorded three lease transactions in the Pan-Regional Slovakia submarket in the total amount of 17,000 sq m.
In terms of active logistics construction, there are three schemes under construction currently in the Pan Slovakian submarket. One is speculative smaller warehouse (1,600 sq m) near Banska Bystrica and remaining two (totaling 14,100 sq m) are built-to-suit projects in Eastern and Northern Slovakia.

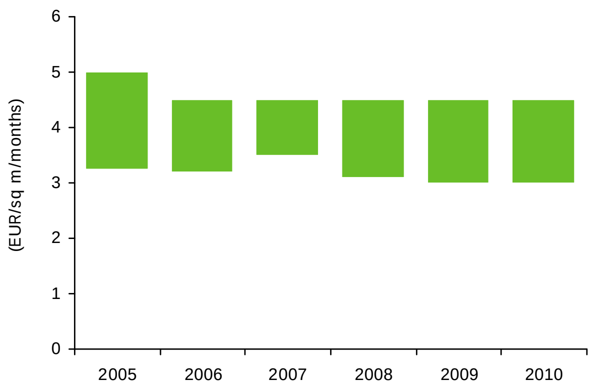
OUTLOOK

We expect that speculative development will remain limited and construction will start in projects with specific leases in place. In most cases developers will continue to prefer built-to-suit schemes until rents increase sufficiently to justify speculative construction.

Selected Industrial Transactions in Q2 2010

Tenant name	Project name	Total Leasing Activity (sq m)
Kolormax	Opal Fytos	5,000
Dráčik	ProLogis Park Senec	10,800
Textile House	ProLogis Park Senec	5,900

Average Rental Levels in Slovakia



Source: CB Richard Ellis

Definitions

STOCK – warehousing space in modern, Class-A, developer-led schemes
VACANCY RATE – a ratio of vacant warehouse space to total stock
TOTAL LEASING ACTIVITY – net warehouse space that has been leased in a given period (does not include temporary deals which are shorter than one year).
NET TAKE-UP – total leasing activity in a given period minus leases signed in which tenant stayed in the same warehouse (i.e. lease renewals, lease renegotiations, lease extensions)
UNDER CONSTRUCTION – developer-led warehouse space currently being developed.

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